AR52

canada development corporation annual report 1976

Canada Development Corporation Annual Report 1976

Highlights

	1976	1975	% Increase (Decrease)
	(millions of dollars)		
Total revenue	$ 576.5	$ 483.9	19.1
Net earnings	22.5	26.1	(13.8)
Net earnings per common share	$ 0.17	$ 0.57	(70.2)
Total assets	$1,592.2	$1,277.2	24.6
Working Capital	89.5	157.1	(43.0)
Shareholder Equity	713.8	707.8	0.8
Return on common equity	1.1%	3.8%	

The Corporation's Objectives

To develop and maintain strong, Canadian controlled and managed corporations in the private sector.

To widen the investment opportunities open to Canadians.

To operate profitably and in the best interests of all the shareholders.

Contents

Despite disappointing earnings, the CDC group of companies continued to invest record amounts for future growth—$510 million for capital expenditures and $17 million for research.

Petrosar project was 72% complete at year-end and first commercial production started on March 30, 1977.

Health care group undertakes long-term research programs to develop new pharmaceutical products.

16% of shareholders are participating in CDC dividend reinvestment plan ... the most successful of its kind in Canada.

Assets grew 25% to more than one and a half billion dollars.

Report of Directors

To the Shareholders:

While 1976 was disappointing, with the rate of economic activity failing to sustain the pace set in the early months of the year, it was nonetheless an encouraging year in many respects. By year-end, the U.S. economy was regaining momentum; final domestic demand in Canada was growing more vigorously than in earlier quarters; and inflation rates were slowly moving down into more reasonable ranges. In previous reports we have emphasized the need for healthy private sector investment—not only to create interesting employment and avert inflation-inducing shortages in the future—but to improve Canada's international competitive position and avoid excessive balance of payments deficits and undue reliance on foreign capital. We are heartened that 1976 saw a growing public awareness of the need for creating an economic climate in which such capital outlays can flourish.

Despite earnings which fell short of earlier expectations, CDC last year persisted in its dedication to its long-term mission—planning, building, and financing major and profitable new projects designed to enhance our own, and the country's, productivity and earnings. Once again a record amount, \$510 million in 1976, was spent by our group of companies on capital expenditures. Solid progress was made on a wide variety of projects designed to enhance the future profitability of your Company. These included the world-scale Petrosar petrochemical project; the Kidd Creek mine expansion and copper smelter and refinery; an expanded gas processing plant in Paddle River, Alberta; improvements to Connaught's insulin facilities; natural resource exploration and development outlays in all parts of Canada; and a number of venture capital projects. Research and development outlays were expanded too, to a total of \$17 million from \$14.5 million in 1975.

As a result of these increased investment outlays, our contribution to expanded employment was significant; for instance, the on-site labour force at the Petrosar project reached a peak of 3,125 during the year, up almost 25% from 1975. The completion of earlier capital projects and the improved pace of economic activity resulted in the group's total employment—apart from contractors' labour forces—climbing from 17,000 in 1975 to 18,000 at the end of 1976. Such figures show clearly the link between employment and a healthy, expanding and competitive industrial sector.

Income, before taxes and other items, rose almost \$4 million to \$42.6 million in 1976. However, translation losses arising from the strength of the Canadian dollar and weakness of certain other currencies where our companies have international operations, higher income taxes, and increased minority interest in the income of subsidiaries combined to reduce net income for the year to \$22.5 million from \$26 million in 1975. The Corporation paid \$17.3 million in preferred share dividends, compared with \$8.6 million a year earlier when the Class B shares were issued in the last quarter. Net income per common share, after preferred dividends, was 17 cents, against 57 cents a year earlier.

Net income equalled our internal targets in the early months of 1976, but fell increasingly short of our goals as the year unfolded. Weaker than anticipated metals and fertilizer prices, together with translation losses and increased exploration expenditures, were the principal reasons income of Texasgulf fell short of plan. In Polysar, the rubber business was strong but price weakness was evident in the markets for latex and polystyrene resins. CDC Oil & Gas had a good year while the Connlab group also improved its contribution significantly. Connaught almost reached the break-even point for the year as a whole after undergoing a significant loss in 1975 and did an outstanding job in meeting Government demand for swine flu vaccine of the highest quality. A review by a special committee of the Canadian Medical Association confirmed the excellence of Connaught's products and the vital role which this institution plays in the health care of Canadians. The contribution of our venture capital companies in 1976 was lower than the previous year, principally because of a decision taken by Venturetek International to write off research and development expenditures previously capitalized.

A summary of the CDC shareholder survey was sent to you during the year and it is gratifying that such a high proportion of shareholders expressed their interest and confidence in the long-term investment objectives of CDC. This was confirmed by the success of the dividend reinvestment plan initiated in mid-year, which has become by far the most successful plan of its kind in Canada, with over 16% of all holders of Class B preferred shares participating.

Directors, Officers and Staff

During the year we lost the services of Mr. S.S. Reisman, who decided not to stand for re-election in 1976; Mrs. Arthur C. Pigott, who resigned from the Board as a result of being elected to Parliament in a by-election; and Mr. O.G. Stoner, who retired as Deputy Minister of Industry, Trade and Commerce to serve on the Royal Commission on Government Expenditures. In addition, Mr. Rodolphe B. Casgrain, who has been a Director since CDC's inception, has indicated to us that he will not be standing for re-election in 1977 owing to the pressures of other business. To all these people we extend our grateful appreciation for their dedication and contributions to the Corporation's affairs.

We are pleased to welcome to our Board Mr. Murray B. Koffler, a distinguished Toronto businessman and philanthropist, and Mme Mary Lamontagne, a director of a number of other Canadian organizations and a prominent contributor to public service in the City of Quebec. We also welcome Mr. Gordon Osbaldeston who joined our Board as an ex-officio member consequent upon his appointment as Deputy Minister of Industry, Trade and Commerce.

At the end of the year, Mr. Donald C. Morrison left the Corporation to pursue other career interests, and we wish to acknowledge the valuable contribution he made to CDC in his more than four years of service as Executive Vice President. To meet our organization's growing needs, as well as to recognize the outstanding services of our senior staff, Mr. Peter K. Powell, a Vice President, was appointed Chief Financial Officer; Mr. Claude R. Marchand, our Secretary and General Counsel, was appointed a Vice President; and Mr. John B. Hague and Mr. Serge Gouin were appointed Vice Presidents. In

addition, Mr. James M. O'Reilly was appointed Treasurer, and Mr. James D. Ellis, Controller. To these gentlemen and to all the other members of our small and highly efficient staff, who work with such dedication to make the Corporation a success, we extend thanks on your behalf.

Outlook

While 1977 promises to be a year of difficult challenges for both the Canadian economy and CDC, it also offers unusual opportunities. The level of unemployment and of Canada's balance of payments deficit are both unsatisfactorily high, and are directly linked to earlier inflationary excesses. The solution to these problems lies in measures which encourage sound private sector investment through creating a climate in which such investment can earn a satisfactory return. If profits are too low and the environment too unfavourable to investment, the results will be higher, not lower, prices; more unemployment rather than less; and lower productivity and greater balance of payments deficits.

Governments are increasingly aware that they play a crucial part in creating this climate, but the business and labour communities must also show an increased willingness to moderate their price and wage demands and to improve their contribution to productivity if the Canadian economy is to be restored to a state of vigorous growth in an increasingly competitive world. Restraint and efficiency are not virtues for one sector to preach about and another to practise: they must be practised by both public and private sectors alike. Fortunately, there seems to be an increasing awareness of the need for cooperative effort by all elements of the economy, and a diminishing tendency to "blame the other fellow" for the difficulties in which we find ourselves.

Given sensible policies and practices by all concerned, we believe that some of the more pessimistic forecasts of the Canadian economy in 1977 will turn out to be unfounded. If this is the case, and the world economy continues to show reasonably healthy growth, we look forward to a more satisfactory year in 1977. Reflecting some of the investments recently completed, and a modest tendency for commodity prices to firm, our natural resource companies should enjoy a better year even though the results of major investment programs and exploration projects currently under way will not be fully felt until

Polysar Limited, located in Sarnia, is a major producer of synthetic rubbers and various types of latex, and also produces basic chemicals, thermoplastic resins and formed plastic products which are sold throughout the world.

early in the next decade. There should also be some continuing improvement in the markets which our petrochemical group serves, although earnings gains in this sector will be limited by expenses associated with the start-up of Petrosar later in the year. While the measures being taken to promote the long-run development of our health care companies, particularly those connected with research programs, will not produce additional revenues for a number of years, this group is looking forward to 1977 with increased confidence. A number of our venture capital investments should also increase their contribution to earnings in the current year.

As we said last year, the country and the Corporation have the potential to enjoy a long period of sustained growth. However, if this potential is indeed to be achieved, Canadians must practise a modest amount of self-restraint, exert a lot of common sense and demonstrate all of their capacities for working together.

Respectfully submitted on behalf of the Board,

A. John Ellis,
Chairman of the Board

H. Anthony Hampson,
President and Chief Executive Officer

March 31, 1977

A giant ore crusher, 2800 feet underground at the Texasgulf Kidd Creek Mine, reduces over 2 million tons of rock annually to under 6 inches for easy transport to the surface.

Review of Operations

The individual contributions of CDC and its subsidiary and associated companies to the consolidated results are shown in the table below. Adjustments are made to deduct dividends paid on the preferred shares of a subsidiary company and eliminate certain inter-company financial transactions. Consequently, these results differ from those reported by the individual companies.

Contribution to Consolidated Net Income

	1976	1975
	(millions of dollars)	
Polysar	**3.4**	(1.3)
Texasgulf	**14.9**	27.6
CDC Oil & Gas	**7.7**	
Connlab	**.6**	(2.0)
Venture Capital	**(2.0)**	.8
CDC	**(2.1)**	.9
	22.5	26.0

The Corporation's own earnings before dividends and other income from subsidiaries, showed a loss of $2.1 million in 1976, compared with a profit of $0.9 million in 1975. Funds which earned interest in 1975 were invested at the end of that year in CDC Oil & Gas, and returned dividend income to CDC rather than interest.

Petrochemicals

In spite of the sluggish performance of the economy during the second half of the past year, revenues of Polysar increased 17% to $457.5 million from $392.1 million in 1975. After payment of preferred share dividends to outside shareholders, profit contribution to CDC's net income rose to $3.4 million from a loss in the previous year of $1.3 million. The major influence in this improvement was the recovery of the market for rubber products. Markets for latex showed no improvement from 1975, and although sales volume of plastics improved, serious price weakness in resins prevented any improvement in profitability. The strength of the Canadian dollar throughout most of 1976 coupled with the devaluation of the Mexican peso caused translation losses amounting to $4.3 million. Capital expenditures continued to be made on long-range investment programs, rising to $76 million from $38.3 million in 1975. The largest expenditure was on construction of the world-scale styrene plant due to commence operations in 1977. In addition, an investment of $28.2 million was made in Petrosar.

Construction of the Petrosar project was 72% complete by the end of 1976 and the crude unit, producing naphtha, LPG and fuel oils, started operation on March 30, 1977. The olefins unit for the production of primary petrochemicals and synthetic natural gas is scheduled to start up in October 1977. Because of inflationary pressures and higher working capital requirements, maximum financing requirements are expected to be $650 million compared with $575 million forecasted a year ago. Although all units are expected to be in production by late 1977, profits are not anticipated until 1980 when full production is expected to be achieved. Petrosar is a significant national project and when fully operational will make Canada a world competitor in petrochemical refining and contribute substantially to improving the country's balance of payments.

Natural Resources

Revenue of Texasgulf increased in 1976 to $490.6 million from $461.7 million in the previous year, but a number of negative factors reduced earnings to $62.9 million from $103.2 million in 1975. Its contribution to CDC earnings thus declined to $14.9 million from $27.6 million. This decrease was attributable to higher overall costs and price deterioration in phosphate and potash products as well as in metals. Increases in interest expense of $13 million, in exploration costs of $6 million and foreign currency translation losses of $2.5 million compared with $2.5 million gained in 1975, all contributed to the lower earnings.

Capital expenditures during 1976 remained strong with new investment for the year reaching $206.2 million. Work was completed on the soda ash plant in Wyoming and on the lead/silver mine and concentrator on Baffin Island in which Texasgulf holds a 35% net profits interest. Both operations commenced production in 1976 as did the expanded Lee Creek phosphate fertilizer complex. The construction of the Kidd Creek copper smelter and refinery is proceeding satisfactorily with start-up expected in 1979. The 5100-foot level at the second mine shaft at Kidd Creek is expected to be reached by mid-1977 with mining scheduled to begin in 1978. Exploration continued at the base metal sulphide deposit at Izok Lake, Northwest Territories where drill indicated mineralization now totals 12 million tons. Further exploration is planned for 1977 in this area as well as in other regions of Canada. Extensive exploration continues in the U.S. for a variety of minerals including uranium, gold, copper, lead, zinc and silver as well as coal, potash, phosphate, sulphur and oil and gas. The Company is also active in exploration in other countries such as Australia, Spain and Ireland. In Panama, evaluation continues on the Cerro Colorado copper project with a feasibility study being prepared to determine the viability of a major metals complex with 100,000 tons per day mill capacity.

CDC Oil & Gas completed its first year of operations as a part of the CDC group of companies on a successful note with a contribution of $7.7 million. 1976 was a year of increased activity for this newest CDC subsidiary with exploration and development expenditures totalling $10.6 million. Late in the year the expanded gas processing plant at Paddle River, Alberta began operation, adding to the company's capacity for gas production. An active exploration program is planned for 1977.

Health Care

Results from Connlab, our health care holding company, improved during 1976, contributing $0.6 million to CDC earnings as compared with a loss of $2 million in 1975. Although improved, earnings are still not at our desired target level. Revenues of $92.4 million increased 10% over those of 1975. Connaught Laboratories had sales of $27.4 million, an increase of $10.2 million over the 1975 sales figure. An extraordinary effort in the last half-year was devoted to the production and delivery of swine flu vaccine. Sales of Dumex decreased slightly from those of 1975 as licensing and import regulations hampered development and maintenance of sales in European and African markets. Omnimedic increased its sales volume from $4.4 million to $5 million in 1976 as new products were introduced to the Canadian market. The company operated profitably during the year, continuing the trend estab-

lished last year. Raylo sales were marginally reduced in 1976 while Bio-Research Laboratories ended the year with sales of $1 million and these two contract research companies contributed only marginally to the group's earnings. Results of Connlab's Latin American investments in 1976 were disappointing but new measures were taken to assure more rapid and profitable development.

During 1976, Connlab's management, supported by the Scientific Advisory Committee, established a comprehensive strategy for the Connlab group of companies to build a strong international and world-competitive enterprise to develop and produce new products for the international market. Dr. Roger Gaudry, former President of the Science Council of Canada and a member of the Scientific Advisory Committee, was appointed President of Connlab, and under his leadership the operations of the health care group are showing encouraging progress.

New product development, quality control, and continual research into improvement of existing products keep Connaught Laboratories in the forefront of human biological production.

Venture Capital

In 1976, CDC's three associated venture capital companies made six new investments, including the investment in the manufacture of foam insulation, pyrotechnics, and paint resins, and three in mineral exploration. Some of the companies reached a new stage of maturity during 1976 and as a result some divestment took place. Venturetek sold 40% of the shares of Ventek Ltd. to TRW Inc. and, through its subsidiary, PoP Shoppes International, 20% of the shares of PoP Shoppes of America, Inc. Subsequent to year-end, it closed the sale of the majority of its holdings in Hermes Electronics to Magna International. Innocan sold a 19% interest in AES Data to the Lanier Office Product Division of Oxford Industries Inc., and after year-end sold its entire minority holding in Vulcan Industrial Packaging.

Financial Resources

The Corporation invested a total of $80.3 million in its underlying companies in 1976. The largest investment, US$50 million, was the purchase of one million convertible preferred shares of Texasgulf, part of an issue of three million shares. Through this purchase, CDC maintains its position in the expanded equity base of Texasgulf at approximately 30.5%. The Corporation also subscribed to equity issues by Polysar, Petrosar and Connlab, providing these companies with working capital and funds for capital expansion.

CDC's financing in 1976 was confined to the successful completion of the shareholders' instalment purchase plan, through which its share capital increased by $2.2 million to $566.8 million.

As in previous years, subsidiary and associated companies also arranged outside financing. Texasgulf raised US$97 million from a public offering of two million convertible preferred shares, as well as the US$50 million raised from the issue to CDC. The proceeds will be used for its ongoing capital expenditure program. Polysar raised a total of US$80 million through two debenture issues, $15.1 million from CDC through an issue of preferred shares and completed arrangements for US$60 million future term bank financing. In 1977, CDC undertook to subscribe for up to $40 million of preferred shares to be issued later in the year. Altogether, this financing program is expected to cover Polysar's requirements through 1979. Petrosar continued its debt financing program through bank term loans from a consortium of Canadian banks, raising $152.9 million in 1976, and also raised $54 million through an issue to its shareholders of subordinated debentures. Of this issue, Polysar took $28.2 million.

Primarily as a result of capital expenditures by Polysar and Petrosar, and of the investment in Texasgulf preferred shares, CDC's consolidated working capital position was reduced by $67.7 million to $89.5 million at December 31, 1976. Looking ahead to its requirements for 1977, the Corporation arranged the first long-term debt issued by the parent company. By a private placement in February 1977, the Corporation raised US$60 million through an issue of seven-year income debentures, with interest fixed at 5% for the first five years and at a floating rate for the final two years. Of the proceeds, up to $40 million has been committed to the previously mentioned issue of preferred shares by Polysar. CDC remains in a strong financial position with capacity for further financing if a worthwhile opportunity makes this desirable.

At this well near Hussar, Alberta, CDC Oil & Gas Limited pumps oil without impairing Canada's equally important grain output.

Corporate Structure

Canada Development Corporation

Developing and maintaining strong Canadian controlled and managed corporations in the private sector.

Assets
$1,592.2 million

PETROCHEMICALS—Assets $913.1 million

Polysar Limited—100%
Manufacturers of rubber, latex, plastic and petrochemical products

Petrosar Limited—60%
World-scale feedstocks refinery (under construction).

MINING—Assets $377.4 million
Texasgulf Inc.—30.5%
A producer of base metals, chemicals and oil and gas with worldwide production and exploration activities.

OIL & GAS—Assets $125.6 million
CDC Oil & Gas Limited—100%
Exploration and production of oil and gas in Western Canada.

OTHER—Assets $60.7 million
Cash and short-term investments held by CDC.

HEALTH CARE—Assets $101.3 million
Connlab Holdings Limited—100%
Research, manufacture and marketing of biological and pharmaceutical products worldwide.

VENTURE CAPITAL—Assets $10.3 million
Venturetek International Limited—32%
Innocan Investments Ltd.—40%
Ventures West Capital Ltd.—49%
Investors in a wide variety of business ventures at the conceptual or early development stage.

PIPELINES—Assets $3.8 million
Gas Arctic—Northwest Project Study Group
Consortium planning construction of natural gas pipeline from Mackenzie Delta and Alaska.

- *Asset values represent book values at December 31, 1976 without deduction of liabilities.*
- *Percentages represent CDC direct and indirect ownership position.*

Consolidated Financial Statements

Year Ended December 31, 1976
Canada Development Corporation

Summary of Significant Accounting Policies

This summary of the significant accounting policies of Canada Development Corporation is presented to assist the reader of the financial statements contained in this report.

Principles of Consolidation

These consolidated financial statements incorporate the financial position, operating results and changes in financial position of the Corporation and its subsidiary companies (note 15).

Foreign Exchange

Non-Canadian current assets and liabilities are translated at rates of exchange on December 31; all other assets, applicable depreciation and non-current liabilities at the rates prevailing when the assets were acquired or the liabilities incurred; and income and expenses, except depreciation, at rates in effect during the year. Gains or losses resulting from such translation practices are reflected in the consolidated statement of income.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Long-Term Investments

The Corporation uses the equity method of accounting for investments in companies over which it has effective control or significant influence. Other long-term investments, amounting to $9 million, are accounted for by the cost method.

Petroleum and Natural Gas Properties

The Corporation follows the full cost method of accounting for oil and gas operations, whereby all costs of acquiring properties, exploring for and developing oil and gas and related reserves are capitalized. Such costs include land acquisition costs, costs of drilling both productive and non-productive wells and overhead expenses related to exploration activities.

Costs of non-producing leases abandoned, unsuccessful drilling expenditures and property and equipment sold or retired are charged to accumulated depreciation, depletion and amortization, net of any related proceeds.

Depreciation, Depletion and Amortization

Depreciation of buildings and equipment is based on the estimated useful life of the assets from commencement of production and is calculated on the straight-line or diminishing balance method as considered most appropriate for each company.

Depreciation, depletion and amortization of producing and undeveloped oil and gas properties and equipment are provided on a composite basis using the unit-of-production method based on the estimated proven recoverable oil and gas reserves as determined by company engineers.

Deferred Charges

Pre-production expenditures incurred in connection with major new production facilities are deferred and amortized from commencement of production on the straight-line basis over a period generally not exceeding ten years. Other deferred charges are charged against income in the periods to which they are applicable.

Goodwill

The policy of the Corporation is to record goodwill arising on acquisitions to the end of 1973 as an asset without amortization. If it subsequently becomes apparent that the value expected to be obtained has not been realized, or if the value of the goodwill is reduced or deteriorates, it will be appropriately amortized or written off against income. Goodwill arising on acquisitions subsequent to 1973 is being amortized over the expected period of benefit, not to exceed forty years.

Cost of Preferred Share Issues

The policy of the Corporation is to amortize the cost of raising equity capital to retained earnings. The period of amortization is dependent upon the terms and conditions of each issue.

Research, Patents and Technology

Research expenditures, net of government grants related thereto, patents and technology are charged against operations as incurred.

Income Taxes

Income taxes include withholding taxes on dividends received.

For the purpose of computing taxable income, legislation in Canada and certain other countries permits the deduction of certain items in amounts which differ from those charged in the financial statements. Income taxes in the consolidated statement of income include taxes deferred as a result of these timing differences as well as taxes currently payable.

The Corporation does not give recognition to the potential tax benefit of losses until these benefits are realized. These recurring tax benefits, when realized, are not considered to be extraordinary in nature and are reflected as reductions of current income taxes.

Consolidated Balance Sheet

December 31, 1976

Canada Development Corporation

Assets

	1976	1975
Current Assets	*(thousands of dollars)*	
Cash	**$ 6,987**	$ 16,017
Short-term investments, at cost which approximates market value	**69,368**	109,050
Accounts receivable	**138,379**	125,807
Inventories (note 1)	**133,678**	104,523
Real estate investments (note 2)	**11,779**	18,911
Prepaid expenses	**4,690**	4,122
	364,881	378,430
Long-Term Investments (note 3)	**404,981**	354,581
Fixed Assets (note 4)	**764,645**	502,792
Other Assets (note 5)	**57,678**	41,734
	$1,592,185	$1,277,537

Approved on behalf of the Board,

H.A. HAMPSON, *Director*

M.J. MOREAU, *Director*

Liabilities

	1976	1975
Current Liabilities	*(thousands of dollars)*	
Short-term loans	**$ 134,201**	$ 95,198
Accounts payable and accrued liabilities	**109,924**	95,674
Dividends payable	**4,333**	4,280
Income and other taxes payable	**938**	15,722
Long-term debt due within one year	**26,026**	10,416
	275,422	221,290
Long-Term Debt (note 6)	**471,850**	253,703
Deferred Income Taxes	**28,427**	21,492
Interests of Minority Shareholders (note 7)		
Subordinated debentures of subsidiaries	**26,708**	
Equity in subsidiaries	**76,013**	73,218
	102,721	73,218
	878,420	569,703

Shareholders' Equity

Capital Stock (note 8)	**566,810**	564,563
Retained Earnings	**95,383**	91,699
Excess of Book Value over Cost at Date of Acquisition of Subsidiary (note 9)	**51,572**	51,572
	713,765	707,834
	$1,592,185	$1,277,537

Auditors' Report

To the Shareholders of
Canada Development Corporation

We have examined the consolidated balance sheet of Canada Development Corporation as at December 31, 1976 and the consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the Corporation as at December 31, 1976 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

THORNE RIDDELL & CO.
Chartered Accountants

Vancouver, Canada
March 25, 1977

Consolidated Statements of Income, Retained Earnings and Changes in Financial Position

Year Ended December 31, 1976

Canada Development Corporation

Consolidated Statement of Income

	1976	1975
	(thousands of dollars)	
Revenue		
Sales of products and services	**$564,226**	$469,605
Other income	**13,755**	13,055
	577,981	482,660
Expenses		
Cost of sales	**441,353**	373,170
Selling, administration and research	**88,346**	81,002
Interest on long-term debt	**10,098**	10,255
Other interest	**8,533**	7,789
	548,330	472,216
	29,651	10,444
Equity in earnings of other companies (note 3)	**12,955**	28,430
Income before income taxes and other items	**42,606**	38,874
Translation (gains) losses	**4,428**	(344)
Income taxes	**11,349**	8,358
Minority interest in income of subsidiary companies	**4,610**	3,285
	20,387	11,299
	22,219	27,575
Loss on discontinued business (note 2)	**429**	1,525
Income before extraordinary item	**21,790**	26,050
Gain on sale of land	**749**	
Net income	**$ 22,539**	$ 26,050
Earnings per common share after preferred share dividends		
Income before extraordinary item	**$0.15**	$0.57
Extraordinary item	**$0.02**	
Net income	**$0.17**	$0.57

Consolidated Statement of Retained Earnings

	1976	1975
	(thousands of dollars)	
Retained earnings at beginning of year	**$ 91,699**	$ 74,744
Net income	**22,539**	26,050
	114,238	100,794
Dividends on preferred shares	**17,296**	8,592
Amortization of cost of preferred share issues	**1,559**	503
	18,855	9,095
Retained earnings at end of year	**$ 95,383**	$ 91,699

Consolidated Statement of Changes in Financial Position

	1976	1975
	(thousands of dollars)	
Working capital derived from		
Operations		
Income before extraordinary item	**$ 21,790**	$ 26,050
Items not involving working capital		
Depreciation and depletion	**30,386**	22,535
Amortization	**1,414**	3,014
Increase in equity in other companies	**(2,777)**	(16,700)
Deferred income taxes	**6,933**	546
Minority interest	**4,610**	3,285
	62,356	38,730
Issue of shares and rights	**2,247**	142,563
Issues of long-term debt	**240,920**	123,435
Investment by minority shareholders		
Subordinated debentures of subsidiaries	**26,708**	
Equity in subsidiaries	**2,508**	61,967
	334,739	366,695
Working capital applied to		
Investment in petroleum and natural gas properties	**10,617**	102,294
Additions to other fixed assets	**280,871**	192,658
Increase in investment in other companies	**47,621**	5,527
Dividends on preferred shares	**17,296**	8,592
Reduction of long-term debt	**22,773**	9,573
Cost of preferred share issues	**125**	8,129
Additions to other assets	**18,795**	7,967
Dividends to minority shareholders	**4,322**	3,206
	402,420	337,946
Increase (decrease) in working capital	**(67,681)**	28,749
Working capital at beginning of year	**157,140**	128,391
Working capital at end of year	**$ 89,459**	$157,140

Notes to Consolidated Financial Statements

Year Ended December 31, 1976

Canada Development Corporation

1. Inventories

	1976	1975
	(thousands of dollars)	
Finished goods	**$ 59,872**	$ 56,053
Raw materials and work in progress	**55,191**	32,796
Operating and maintenance supplies	**18,615**	15,674
	$133,678	$104,523

2. Real estate investments

Real estate investments include all remaining assets of the building systems division of Polysar net of related mortgages of $1.3 million at December 31, 1976 and $4.7 million at December 31, 1975. As the disposal of these assets is in progress, they have been classified as current assets. Operating losses of the building systems division have been classified as loss on discontinued business. In addition, a subsidiary of Connlab has entered into a joint venture to develop for sale certain lands. Accordingly, the cost of this land amounting to $1.4 million has been reclassified as a current asset.

3. Long-term investments

	1976	1975
	(thousands of dollars)	
Texasgulf Inc.	**$377,357**	$324,189
Other	**27,624**	30,392
	$404,981	$354,581

(i) The Corporation, through a wholly-owned subsidiary, owns 9,259,720 (30.1%) of the outstanding common shares of Texasgulf and during 1976 purchased 1,000,000 (33.3%) of the outstanding $3.00 convertible cumulative preferred Series A shares for $49,271,000. If all outstanding Texasgulf preferred shares were converted to common shares, the Corporation's ownership would increase to 30.5%. The quoted market value of the Corporation's shares of Texasgulf at December 31, 1976 was $325 million (common share, $29.50; preferred share, $51.47) which because of the number of shares owned, is not necessarily indicative of the amount which would be realized if the shares were to be sold.

(ii) The excess of cost of the investment in the common shares of Texasgulf over the Corporation's equity in the net book value of the underlying assets of Texasgulf at the dates of acquisition of these shares amounted to $143 million. This excess has been allocated to resource assets, which are diverse both in nature and in estimated length of economic life, and the excess is being amortized on a straight-line basis over a period of 40 years.

The Corporation's equity in the reported earnings of Texasgulf which is included in "Equity in earnings of other companies" has been computed as follows:

	1976	1975
	(thousands of dollars)	
Share of net income of Texasgulf	**$ 18,508**	$ 31,174
Less amortization of excess of cost of investment over equity in net book value of underlying assets of Texasgulf at dates of acquisition of shares	**3,574**	3,574
Equity in earnings of Texasgulf	**$ 14,934**	$ 27,600

(iii) Included in other investments is $3.8 million which the Corporation has paid to the Gas Arctic-Northwest Project Study Group, a consortium of companies proposing the construction of a large-diameter gas pipeline from the Mackenzie Delta and the north slope of Alaska to markets in Canada and the United States. If the necessary approvals are obtained and the project proves feasible, the Corporation's investment may be converted to either an equity or debt interest in a company to be formed to construct the pipeline. If all or part of the value of this investment becomes permanently impaired, it will be written off.

4. Fixed assets

	1976			1975
	(thousands of dollars)			
	Cost	Accumulated depreciation and depletion	Net	Net
Land, buildings and equipment	$ 916,436	$269,997	$646,439	$386,394
Petroleum and natural gas properties	138,210	20,004	118,206	116,398
	$1,054,646	$290,001	$764,645	$502,792

5. Other assets

	1976	1975
	(thousands of dollars)	
Long-term receivables	**$ 13,216**	$ 9,210
Deferred charges	**18,909**	6,247
Goodwill	**19,361**	18,651
Cost of preferred share issues	**6,192**	7,626
	$ 57,678	$ 41,734

6. Long-term debt

	1976	1975
	(thousands of dollars)	
Petrosar Limited		
Loans repayable		
In United States dollars (U.S. $109,500,000) during the years 1979 to 1988 bearing interest at rates varying from 120% to 122.5% of the average prime rate of specified New York banks until 1985 and thereafter at rates to be agreed upon. Of this loan, 55%, amounting to $60,802,500 at December 31, 1976, is guaranteed by minority shareholders	**$110,550**	$104,825
In Canadian dollars during the years 1979 to 1988 bearing interest at rates varying from .75% to 1.25% above the Canadian prime rates until 1985 and thereafter at rates to be agreed upon. Of this loan, 55%, amounting to $101,447,500 at December 31, 1976, is guaranteed by minority shareholders	**184,450**	37,275
	295,000	142,100
Polysar Limited		
Debentures		
In Canadian dollars		
Sinking fund debentures Series A bearing interest at 7.5% maturing 1987	**11,663**	12,300
Sinking fund debentures Series B bearing interest at 9% maturing 1993	**35,000**	35,000
In United States dollars (U.S. $30,000,000) Series C debentures bearing interest at 10% maturing 1982.	**30,192**	
In United States dollars (U.S. $50,000,000) Series D debentures bearing interest at 9.5% maturing 1986	**50,613**	
Loans repayable		
In French francs (Fr. 8,500,000) during the years 1977 to 1980 bearing interest at rates varying from 7.25% to 9.25%	**1,744**	2,629
In Belgian francs (Fr. 75,000,000) during the years 1977 to 1981 bearing interest at rates varying from 6.5% to 9% and secured by a mortgage on land and buildings	**1,975**	2,366
In Belgian francs (Fr. 235,658,000) under lease arrangements during the years 1977 to 1992 bearing interest at rates varying from 8% to 9.86%	**6,363**	8,275
In Swiss francs (Fr. 25,000,000) due 1981 with interest at a variable rate with a minimum of 7.5%	**6,244**	6,244
In German marks (DM 48,824,000) during the years 1977 to 2004 bearing interest at rates varying from 2.5% to 12.25%	**20,305**	20,047
In United States dollars (U.S. $8,805,000) under lease arrangement during the years 1977 to 1985 bearing interest at 9.75%	**8,988**	9,606
In United States dollars (U.S. $6,171,000) during the years 1977 to 1989 bearing interest at rates varying from 5% to 13% and secured by mortgages on certain fixed assets	**6,292**	4,493
Other	**5,171**	5,801
	184,550	106,761
Connlab Holdings Limited		
Loans repayable		
In Canadian dollars during the years 1979 to 1986 bearing interest at .5% above prime lending rate established by the lender, a Canadian bank and secured by a floating charge on certain assets	**6,000**	2,800
In United States dollars (U.S. $6,178,000) during the years 1977 to 1983 bearing interest at .5% above the London Interbank Eurodollar market rate, but fixed at 7.5% until April 1977	**6,285**	6,198
In Danish kroner (Kr. 14,948,000) during the years 1977 to 1985 bearing interest at 10% and secured by a mortgage on certain property	**2,508**	2,673
In Danish kroner (Kr. 10,000,000) during the years 1977 to 1985 bearing interest at 15% and secured by certain bonds	**1,676**	1,730
Other	**1,857**	1,857
	18,326	15,258
	497,876	264,119
Less portion of long-term debt due within one year included in current liabilities	**26,026**	10,416
	$471,850	$253,703

6. Long-term debt (Cont'd)

Long-term debt payable in foreign currency would increase by $6 million if converted into Canadian dollars on the basis of exchange rates at December 31, 1976.

Sinking fund requirements and the long-term debt due in each of the next five years are as follows:

1977—$26 million; 1978—$8 million; 1979—$42 million;
1980—$43 million; 1981—$49 million

In February 1977, the Corporation issued U.S. $60 million Income Debentures due February 15, 1984, bearing interest at 5% for the first five years and at a floating rate, based on the U.S. dollar lending rate of a Canadian chartered bank, for the last two years. The debentures are redeemable at par in whole or in part at the option of the Corporation after February 15, 1982.

7. Interests of minority shareholders

	1976	1975
	(thousands of dollars)	
Subordinated debentures of Petrosar	$ 26,708	
Equity in subsidiaries		
Polysar	50,000	$ 50,000
Petrosar	20,800	18,200
Others	5,213	5,018
	76,013	73,218
	$102,721	$ 73,218

Debentures held by minority shareholders are subordinated to the rights of banks pursuant to bank loan agreements, and to certain customer advances. Interest is related to the Canadian prime rate on the date of issue. The debentures are payable on demand. However, payment of interest and repayment of principal is deferred under a shareholders' agreement and also until certain working capital levels have been met as specified in the bank loan agreements. The average interest rate on these debentures at December 31 is 12.1%.

The minority interest in the equity of Polysar consists of 8.4% cumulative redeemable first preferred shares. Polysar is required during the 30-day period ending March 31, 1982, to invite tenders at $25 per share from the holders of these shares and to purchase on April 1, 1982 the shares so tendered.

8. Capital stock

(i) Authorized

Preferred

$1,000,000,000 divided into shares with a par value in any multiple of $5 not exceeding $1,000 each

Common

200,000,000 shares without par value

	1976	1975
	(thousands of dollars)	
Issued		
Preferred		
10,000,000 5¾% cumulative, redeemable, non-voting Class A shares of $10 each	$100,000	$100,000
1,447,813 8% cumulative, redeemable, convertible, voting Class B shares of $100 each (1975, 1,425,343 shares)	144,781	142,534
Common		
30,712,038 shares	322,029	322,029
	$566,810	$564,563

The Class A preferred shares are redeemable on or after March 5, 1979 at the option of either the Corporation or any holder at par plus all accrued and unpaid dividends.

The Class B preferred shares are redeemable at the request of the holder from October 2, 1980 to December 31, 1980 and from October 2, 1985 to October 1, 1986, at par plus all accrued and unpaid dividends. They are also redeemable at the option of the Corporation, commencing October 2, 1980 at a price of $105 per share, reducing by $1 per year until October 2, 1985 when they become redeemable at $100 per share, plus in all cases accrued and unpaid dividends.

Each Class B preferred share carries the right to receive two bonus common shares, the first of which is to be issued to each holder of record on October 1, 1980, and the second to each holder of record on October 1, 1985, subject to earlier record dates being fixed by the Board of Directors.

Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

At meetings of shareholders, holders of Class B preferred shares are entitled to ten votes per share and holders of common shares to one vote per share.

(ii) Issued during the year

During 1976 the Corporation issued 22,470 Class B preferred shares, subscribed for under instalment purchase plans, for cash of $2,247,000.

(iii) Common shares reserved

At December 31, 1976, 14,478,130 common shares were reserved for issue upon the conversion of the Class B preferred shares outstanding as at that date. A further 2,895,626 common shares were reserved for issue pursuant to the bonus common share rights.

9. Excess of book value over cost at date of acquisition of subsidiary

The excess of book value over cost at the date of acquisition of Polysar amounts to $51.5 million. The Corporation does not consider it appropriate to apply this amount against the book value of Polysar's fixed assets since this approach would cause a material understatement of fixed asset values. Accordingly, the Corporation has recorded fixed assets at their estimated fair values, and depreciation is based on these values rather than on the substantially lower values that would have resulted if the amount had been applied against Polysar's fixed assets. Dependent upon such factors as sale of the assets or increases in their earning power, this amount will be transferred directly to retained earnings.

10. Commitments

(i) The Petrosar project is scheduled for completion in 1977, and the estimated cost including financing, start-up and working capital requirements is expected to approximate $650 million.

The shareholders of Petrosar, other than the Corporation, have undertaken to make additional funds available to Petrosar to the extent necessary to complete the project; Polysar's share is 48%.

The Corporation has guaranteed certain of Polysar's obligations under the term bank loan arranged by Petrosar regarding completion of the project. The amount of the guarantee may vary but is limited to a maximum of $75 million.

(ii) At December 31, 1976 subsidiaries other than Petrosar were committed to spend approximately $30 million for the acquisition of capital assets.

11. Anti-Inflation Act and Regulations

The Corporation and certain of its subsidiary and associated companies in Canada are subject to the Anti-Inflation Act and Regulations. The Act provides as from October 14, 1975 a restraint on prices, profit margins, compensation to employees and dividends. The legislation does not affect dividends expected to be paid by the Corporation on its Class A or Class B preferred shares during 1977. The Corporation has followed a policy of reinvesting earnings, and no dividends on common shares have been paid to date. The formula required by the Act would limit common dividends to $9 million in the year ending October 13, 1977.

12. Pension plans

Current service costs of pension plans are funded and charged to operations as they accrue. At December 31, 1976 the unfunded liabilities of the pension plans are estimated at approximately $15.2 million made up of past service costs of $6.7 million and an experience deficiency of $8.5 million. These liabilities are expected to be funded and charged to operations at an annual rate of approximately $1.5 million.

13. Revenue

The revenue of the Corporation is derived from:

	1976	1975
	(thousands of dollars)	
Petrochemical group	**$449,109**	$387,915
Health care group	**88,704**	81,690
Oil and gas group	**26,413**	
	564,226	469,605
Interest income	**10,526**	8,945
Other income	**3,229**	4,100
	$577,981	$482,650

Notes to Consolidated Financial Statements
(continued)

14. Remuneration of Directors and Officers

	1976	1975
Number of directors	**22**	21
Number of officers	**11**	7
Number of officers who are also directors	**3**	3
Aggregate remuneration of directors as directors of the Corporation	**$101,958**	$103,625
Aggregate remuneration of directors as directors of subsidiary companies	**12,150**	4,125
Aggregate remuneration of officers as officers of the Corporation	**466,311**	385,625

Officers of the Corporation received no remuneration from subsidiary companies.

15. Consolidated subsidiary companies

CDC Nederland B.V.

CDC Oil & Gas Limited

Connlab Holdings Limited

Bio-Research Laboratories Ltd.
Canada Pharmacal Co. (1975) Limited
The Canada Serum Company Limited
Comex Nederland B.V.
Comprator A.G.
Connaught Biologics Limited
Connaught Laboratories Limited
Connaught Laboratories (Ireland) Limited
Connlab do Brasil Industria e Commercio Limitada
OY Dumex AB
Dumex B.V.
A/S Dumex, Denmark
Dumex GmbH
Dumex Lakemedel AB
A/S Dumex, Norway
Dumex (Pty.) Ltd.
Dumex SPA
Nordic Pharmaceuticals Limited
Octo Laboratory Limited
Omnimedic Inc.
R. & L. Molecular Research Ltd.
Raylo Chemicals Limited
Steele Chemicals Co. Ltd.

Petrosar Limited

Polysar Limited

Bellaplast GmbH
Bellaplast Nederland B.V.
Com-Share A.G.
Com-Share B.V.
Com-Share International B.V.
Com-Share Limited
Com-Share Limited (U.K.)
Com-Share S.A. (Belgium)
Computer Sharing of Canada Limited
Decorative Components, Inc.
Distribuidora Adanac S.A.
General Plastics Co. Limited
Genplac Limited
Kayson-Mammoth Limited
Komfortplast GmbH
Nippon Polymers Company Limited
Polcrete Properties Incorporated
Polymer Corporation Canada Limited
Polymer (United Kingdom) Limited
Polysar Australia Pty. Ltd.
Polysar Belgium N.V.
Polysar Cayman Limited
Polysar de Venezuela S.A.
Polysar Deutschland GmbH
Polysar do Brasil Produtos Quimicos Ltda.
Polysar Europa S.A.
Polysar France S.A.
Polysar GmbH
Polysar Handelmaatschappij B.V.
Polysar Incorporated
Polysar International S.A.
Polysar Italiana S.P.A.
Polysar Latex, Inc.
Polysar Nederland B.V.
Polysar Plastics Inc.
Polysar Plastics Limited
Polysar Resins, Inc.
Polysar Rubber Services, Inc.
Polysar Skandinaviska A.B.
Polysar Technical Service Centre N.V.
Polysar (U.K.) Limited
Polysar United States, Inc.
Société de Latex S.A.
Société Française Polysar
Synthetic Elastomers Development S.A.
Trent Rubber Services Limited

Five-Year Financial Summary

	1976	1975	1974	1973	1972
			(thousands of dollars)		
Sales	**$564,226**	$469,605	$454,204	$285,029	$ 92,333
Net Operating Income	**48,282**	28,488	58,972	29,681	4,786
Interest on Long-Term Debt	**10,098**	10,255	10,994	4,835	1,614
Other Interest Expense (Net)	**8,533**	7,789	8,180	5,441	492
Equity in Earnings of Other Companies	**12,955**	28,430	41,522	7,389	
Net Income before Extraordinary Items	**21,790**	26,050	63,871	20,163	2,073
(Per Share)	**$0.15**	$0.57	$2.06	$0.95	$0.31
Net Income after Extraordinary Items	**22,539**	26,050	58,971	18,728	2,073
(Per Share)	**$0.17**	$0.57	$1.89	$0.88	$0.31
Dividends—Class A	**5,750**	5,750	4,750		
—Class B	**11,546**	2,842			

	1976	1975	1974	1973	1972
Cash Flow From Operations	**$ 62,356**	$ 38,730	$ 58,130	$ 35,187	$ 10,269
Other Sources of Funds	**272,383**	327,965	191,676	196,172	113,885
	$334,739	$366,695	$249,806	$231,359	$124,154
Investments	**47,621**	107,821	1,989	310,683	28,889
Capital Expenditures	**291,488**	192,658	74,268	30,814	8,125
Dividends	**21,618**	11,798	4,750		
Other Uses of Funds	**41,693**	25,669	16,320	20,420	5,212
Changes in Working Capital	**(67,681)**	28,749	152,479	(130,558)	81,928
	$334,739	$366,695	$249,806	$231,359	$124,154

	1976	1975	1974	1973	1972
Working Capital	**$ 89,459**	$ 157,140	$ 128,891	$ (23,588)	$ 106,970
Fixed Assets (Net)	**764,645**	502,792	216,271	169,263	128,040
Equity Investments	**404,981**	354,581	332,354	296,250	10,042
Long-Term Debt	**471,850**	253,703	137,439	122,803	48,195
Deferred Taxes	**28,427**	21,492	9,744	7,166	4,153
Preferred Equity	**244,781**	242,534	100,000		
Common Equity	**468,984**	465,300	448,316	344,430	200,702
Total Assets	**$1,592,185**	$1,277,537	$ 899,591	$ 701,494	$ 315,602

Corporate Philosophy

To achieve the Corporation's objectives, CDC's Directors have determined that it should be an equity investor in strong, profitable enterprises with high growth potential. Directly, or through subsidiaries, CDC's policy is to put special emphasis on large, longer-range development projects, particularly those involving upgrading of resources, a high technological base, or good potential for building a Canadian-controlled presence in international markets. Such a presence is often necessary if Canada's corporations are to scale up their operations to a larger and more efficient size. This process encourages the development of managerial, technical and research talents of superior quality, provides interesting work to skilled and creative Canadians, and assists the country to achieve its full potential.

Profit Criteria

Profit prospects commensurate with the investment risks involved are essential. CDC is prepared to be patient, recognizing that some of its opportunities will exist because others are unwilling or unable to wait through the years of earnings buildup, but the projects selected should have the prospect of high, long-term growth and a superior rate of return on equity.

Earning adequate profits and building strong Canadian-controlled enterprises are not conflicting goals. To dissipate CDC's resources in unprofitable companies rather than investing them in strong and growing enterprises would mean fewer rather than more domestic and international assets under Canadian control in the future, smaller amounts of investor funds at CDC's disposal, less employment and fewer interesting jobs, and missed opportunities to provide growing real wealth and income for Canadians.

Working with Others

CDC does not wish merely to duplicate or to preempt the activities of other Canadian investors. Rather, it wishes to play a part in assembling Canadian strengths and competence to create internationally competitive enterprises, especially in areas where investment opportunities for Canadians have been limited. The Corporation is prepared to play a catalytic role in mobilizing the capital of other investors, both domestic and foreign, in joint ventures which are under Canadian control.

Effective Control

CDC converts the portfolio investments of Canadians, who alone can own its voting shares, into controlling positions in its underlying companies. By maintaining effective control of the companies in which it invests, CDC can take the necessary measures to protect and increase the value of its holdings. However, it does not intend to participate in the day-to-day management of its subsidiary and affiliated vehicle companies, which are expected to have or develop their own skilled staffs and specialized operating personnel. CDC's role, through membership on the Boards and Executive Committees of such companies, is to participate actively in the strategy, development and longer-range planning of such companies so that they will remain innovative and growth-oriented. CDC also gives attention to maintaining appropriate financial controls and good management development policies. If necessary, CDC will play a part in finding new or additional operating management for such companies.

Focussed Effort

CDC does not plan to invest in every field of activity since this would risk scattering its resources too thinly and losing effective control of the underlying assets. However, new activities will be added from time to time and vehicle companies acquired or established in those new fields. It is through these companies that CDC plays a part in developing major and profitable Canadian-controlled projects in its chosen fields of endeavour.

CDC Unconsolidated Review

Standard accounting practices require that the financial statements of a company and those of the companies in which it has a majority interest be reported to its shareholders in a single financial unit. CDC follows this practice (see page 9) but, for those shareholders who would like to see the economic results of the CDC as distinct from its subsidiaries and affiliates, the report below presents some highlights for 1976 on an unconsolidated basis.

A significant portion of the decrease in working capital over the year reflects the US$50-million investment in Texasgulf convertible preferred shares made in December 1976. Additional investments were made during the year in CDC Oil & Gas, Connlab, Polysar and Petrosar to assist in the capital expenditure program of these companies. These latter investments were offset by the sale to CDC Oil & Gas of the Corporation's assets in Kern County Land Company at its original purchase price of $30 million. The increase in CDC's share capital by $2.2 million reflects the completion of the shareholder instalment purchase plan. Working capital was increased by US$60 million in early 1977 by the issue of income debentures described in the Review of Operations.

Unconsolidated income rose by $6.4 million as the result of increased dividend and other income from underlying companies, while the extra cost incurred to operate the Corporation as a public company was the primary reason for the increase of $400 thousand in operating expenses. After payment by CDC of dividends of $17.3 million on its preferred shares, retained earnings in the Corporation rose by $2.8 million to $20 million. It is the Corporation's present policy to encourage its subsidiary and associated companies to reinvest the major part of their earnings in future growth, rather than adding unnecessarily to the Corporation's own cash balances and retained earnings through large dividend payouts.

Unconsolidated Financial Summary

	1976	1975
	(millions of dollars)	
Working Capital	**23.0**	75.3
Investments—at cost	**560.5**	502.0
Share Capital	**566.8**	564.6
Retained Earnings	**20.0**	17.2
Operating Expenses	**2.0**	1.6
Net Income	**21.5**	15.1
Dividends		
—on Class A Shares	**5.8**	5.8
—on Class B shares	**11.5**	2.8

With its diversity of interests, CDC offers a wide spectrum of job opportunities from computer technology to designing aircraft interiors; from medical research to underground mining; from oil and gas drilling to bottling pop.

Oil and Gas

CDC Oil & Gas Limited

1976 was the first complete year of operations for CDC Oil & Gas Limited. Operating results exceeded initial expectations. Net income was $8.7 million on revenues of $26.5 million, with cash flow from operations of $18.3 million.

CDC Oil & Gas was formed at the end of 1975, following acquisition by CDC of some 60% of the Canadian oil and gas holdings of Tenneco Inc. The management and staff of CDC Oil & Gas are basically the former management and staff of the old Tenneco Oil & Minerals, Ltd.

Steps were taken in 1976 to expand staff capabilities so that the company is a self-contained operating unit. A wholly-Canadian Board of Directors was elected which oversees the company's activities and provides general policy direction. The company's management has created the framework necessary to support an aggressive growth strategy through exploration and acquisition activities.

The company began the year with an undeveloped land inventory of 1,342,350 gross acres in Alberta, Northeastern British Columbia and Southeastern Saskatchewan. Exploration activities in all regions were intensified during the year. The company was involved in 30 wildcat wells resulting in 2 oil and 4 gas discoveries. On the basis of preliminary geological and reservoir data, net additions to reserves are estimated to exceed production during the year.

Since its formation, CDC Oil & Gas has been an active participant in land sales both in Alberta and British Columbia. Jointly with another Canadian company, the non-producing properties of TransOcean Oil Canada Ltd. in the Foothills region of Alberta were acquired. In 1976, the company's first participation in the Mackenzie Delta region was arranged which will result in involvement in one exploration well during 1977.

Net production in 1976, after royalties, averaged 4,348 barrels per day of oil, condensate and natural gas liquids and 34.5 million cubic feet per day of natural gas. Over 80% of this production comes from the Alberta fields with much of the balance from British Columbia. During the year the company participated in 35 development wells, 23 of which are capable of commercial production.

Some reassessment of 1977 development drilling plans has been necessitated by the current unavailability of gas contracts in Alberta but every effort is being made to maximize production capacity.

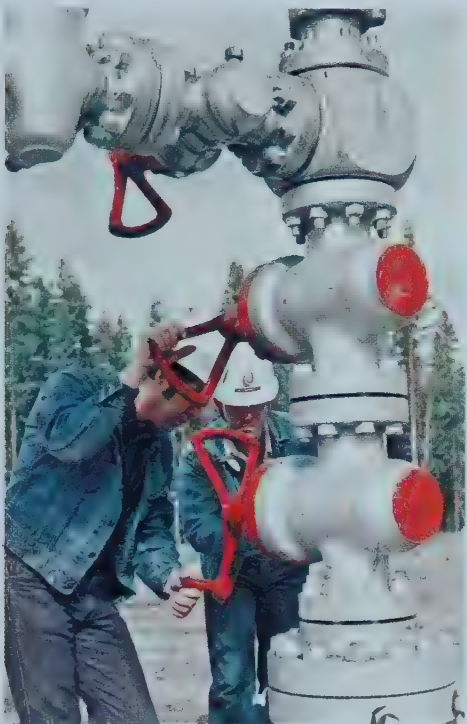
The Paddle River Gas Plant, Alberta, in which CDC Oil & Gas has a 25.9% interest, was expanded from 25 million cubic feet per day to 73 million cubic feet per day sales gas. This facility came on stream in September 1976 allowing CDC Oil & Gas to increase its daily production by a net 10 million cubic feet and 400 barrels of condensate.

CDC Oil & Gas continues to assess the feasibility of bringing its 51%-owned tar sand lease, located 40 miles northeast of Fort McMurray, Alberta, into production. However, any future investment will depend upon resolving a number of technical and economic considerations.

CDC Oil & Gas devotes a significant portion of its operating cash flow to exploration and development activities. Through a combination of intensified effort on existing non-producing land, participation in land sales and land acquisitions from other companies, CDC Oil & Gas expects its 1977 exploration program to be significantly larger than that in 1976.

Financial Review	1976
	($ Millions)
Total Revenue	26.5
Net Income	8.7
Cash Flow Operations	18.3
Working Capital	6.9
Fixed Assets (Net)	77.8
Total Assets	87.5

CDC Oil & Gas Limited operates 200 producing oil and natural gas wells and 3 gas purification plants in Alberta and B.C. Safety is a key consideration and an active program is maintained to ensure good working conditions and practices.



Health Care

Connlab Holdings Limited

Connlab is CDC's vehicle company in the health care field with subsidiaries and affiliates producing a wide range of products to promote both human and animal health. The company's prime objective is the development of an internationally competitive Canadian presence in the research, manufacture and sale of biologicals, pharmaceuticals and related health care products. In addition to its operations in Canada, the group has major undertakings in Denmark, Asia, Africa and participates in joint ventures in Mexico and Brazil.

Highlights of 1976 Financial Results

In 1976, Connlab's contribution to CDC's earnings was $572 thousand on sales of $89 million, reversing the loss incurred in 1975. Dumex reached an all-time high profit level; marketing and product development efforts of Omnimedic, coupled with improved management efficiencies, continued the trend of profitability which became evident in the last quarter of 1975 and thus the company's profit for 1976 was much improved over 1975; and, at Connaught Laboratories, increased sales volume assisted in reduction of losses. Total fixed assets expenditures during the year increased by $2.8 million to $7.2 million.

Major Events

A new thrust was given to the Connlab organization in 1976 in order to strengthen its scientific expertise, with the appointment of Dr. Roger Gaudry as President and Chief Executive Officer and of Dr. Clifford I. Chappel as Vice President and Director of Research and Development.

Nordic Research was set up during the year to undertake promising research programs in the pharmaceutical area for the benefit of the whole Connlab group.

In 1976, Connlab purchased the remaining minority shares of Raylo Chemicals Limited, in which it already held a 70% interest. Raylo is an Edmonton-based company which conducts chemical research, produces fine chemicals and does custom synthesis.

A second company acquired by the Connlab group last year was Bio-Research Laboratories Ltd. of Montreal. The company, which is unique in Canada, has a staff of highly qualified personnel providing contract research, testing and consulting services in the life sciences. Bio-Research's primary activity is the preparation of reports, based on its own testing, for clients in the pharmaceutical, chemical, cosmetic and food industries. Such studies are undertaken to establish the safety and efficacy of drugs and other chemical compounds in support of applications to regulatory agencies. In addition to pursuing its contracting work, Bio-Research will provide essential expertise for the development of new drugs within the Connlab group.

Continued efforts were devoted to improving Connaught's market position and profitability and the company's management group was strengthened further. Connaught faced a major challenge in 1976, in response to an urgent request by the Federal Government, and was successful in producing in a very short period of time over 10 million doses of swine flu vaccine. The successful achievement of this program is a tribute to the management and personnel of Connaught and is indicative of the company's vital role in public health care in Canada. The future of Connaught in the Canadian health care industry will be reviewed during the year with the aim of returning the company to profitability while providing essential products for the prevention and treatment of diseases.

In 1976, Dumex was successful in introducing three significant new products and in completing new sterile and syrup facilities.

Research and Development

In 1976, in the biological area, field studies were completed, prior to licence amendment, on an inactivated polio vaccine. This method increases manufacturing potential and places Connaught in an advantageous position in the event of a new world demand. A licence for the preparation of an attenuated measles vaccine, developed by Connaught, is expected in 1977, and work is well under way on the preparation of an inactivated rabies vaccine for human use. Further progress has been made on studies of in vitro cultivation of pancreatic beta cells for the production of insulin and in the use of antigens and antibodies from human carcinomas to improve diagnostic techniques for the detection of human cancers. In the animal health care division, four new vaccines (distemper/hepatitis/rabies) were introduced in 1976, three of which are unique to Connaught, and research is also being conducted on an inactivated rabies vaccine for animal use.

During the past year, buildup of a pharmaceutical research and development organization was initiated under the name of Nordic Research. This organization has as its objective the development of significant new pharmaceutical products for marketing by Omnimedic and Dumex. Research projects under way include studies on new antibiotics, drugs to lower blood cholesterol and drugs for the treatment of heart disease. Planning is under way for a research and development facility which will allow for expansion of these programs. Further clinical research is continuing on a product affecting mental performance and on new anti-ulcer and anti-inflammatory compounds. Also under study is a new technology involving the delivery system for drugs.

Financial Review	**1976**	1975
	(millions of dollars)	
Total Revenue	**92.4**	83.8
Net Income	**0.4**	(1.7)
Working Capital	**15.8**	8.3
Fixed Assets (Net)	**35.9**	33.8
Long Term Debt	**16.2**	14.5
Total Assets	**101.3**	89.8

Major Subsidiaries	**Percentage ownership**
Connaught Laboratories Limited	100%
A/S Dumex	75%
Omnimedic Inc.	70%
Bio-Research Laboratories Ltd.	100%
Raylo Chemicals Limited	100%

The Connlab group of companies employs 3000 people in Canada and throughout the world. In addition to human biological and veterinary products, Connlab has extensive research, testing and consulting services in the life sciences.

Venture Capital

Venturetek International Limited

Venturetek continues to hold investments in eight companies with the objective of achieving long-term capital gains. It has chosen to concentrate its efforts by assuming control of a small number of carefully selected companies with high growth potential rather than taking the approach of investing in a minority position in a large number of enterprises. Revenues in 1976 reached the $50 million level, approximately the same as those in 1975. However, net earnings for the year showed a loss of $7 million largely as a result of a write-off of previously deferred research and development expenses.

Major holdings, with percentage ownership in brackets, are:

Conat Industries Limited, (77.8%), manufactures and sells residential heating and cooling systems, distributes various solar products for heating swimming pools, and markets wood-drying equipment for the wood industry. Although sales nearly doubled in 1976, Conat is still operating at a loss.

Gestalt International Limited, (58.4%), a world leader in the field of electronically-based automated mapping equipment, provides mapping, geophysical exploration and aerial surveying services. In 1976, Gestalt purchased Instronics Limited, a company which manufactures and markets mapping equipment which is complementary to the Gestalt Photo Mapper. Sales decreased by about 20% in relation to 1975.

Hermes Electronics Limited, (20.0%). Located in Dartmouth, Nova Scotia, the company is the largest manufacturer of ocean engineering products in Canada. Construction of a modern sonobuoy plant was completed during the year and should improve production efficiency. However, the company experienced severe problems during the year which resulted in substantial losses. Venturetek reduced its interest in Hermes from 69% to 20% as part of a major refinancing, by selling control to a Canadian manufacturer.

McPhar Instrument Corporation, (57.0%), develops, manufactures and markets geophysical instruments for use in mineral exploration. Its systems can be used from the air as a primary exploration tool to locate ore bodies, or on the ground for a detailed follow-up of anomalies detected from the air. Sales revenue increased by almost 70% in 1976 and McPhar will start 1977 with the largest single order for geophysical instruments ever booked in the industry.

PoP Shoppes International Inc., (56.0%), eliminates the high-cost distribution system normally associated with the soft drink industry, and saves the consumer up to 50% of his soft drink costs. There were 50 company-owned and franchised PoP Shoppes and 500 depots in operation by the end of 1976. Sales rose from $13.9 million to $17 million, and profits increased to more than $3.5 million including the income generated by the sale of a 20% interest in PoP Shoppes of America to Imasco Limited of Montreal. With a PoP Shoppe located in every major Canadian city, the major thrust of the company's expansion is now centred in the United States.

STAKE Technology Ltd., (60.0%), completed development of its process to convert waste cellulose into a highly economical cattle feed. The product, known as STAKE, is an enriched roughage made from perennial crops, such as wood and crop waste. By substituting STAKE, overall feed costs can be substantially reduced.

Survair Ltd., (87.5%). In addition to providing aircraft maintenance, the company operates a fleet of aircraft from its bases in Ottawa, Fort Chimo and Frobisher Bay, providing freight and passenger services on a scheduled and charter basis. It is now one of the major third-level airlines in the far North, providing essential services to remote communities.

Wordplex Corporation, (90.0%), formerly known as Ventek Computer Systems Inc., is an international marketing, manufacturing and development group specializing in electronic word processing. Distributorships have been established in the United States, the United Kingdom, Australia and major European countries. Product development was completed in 1976. With initial deliveries in December, the company expects substantial sales in 1977. An affiliate, Ventek Limited, (60.0%), markets the Datapoint series of dispersed data processing products through nine sales offices in the United Kingdom. During 1976, 40% of the company was purchased by TRW Inc. of Los Angeles.

Ventures West Capital Ltd.

Investing primarily in the Western Provinces and Northern Canada, Ventures West takes both minority and majority positions in firms in the natural resources field and in innovative and export-oriented industries. These, with percentage ownership in brackets, are summarized below:

Canadian Foremost Ltd., (8.9%), of Calgary, designs and manufactures specialized large off-highway tracked and wheeled vehicles for transporting heavy payloads over difficult ground conditions. The company's products are well suited to pipeline construction in the far North. The company sales for 1976 were approximately $14 million.

Controlled Environments Ltd., (60.7%), of Winnipeg, manufactures a variety of "controlled environment" chambers and rooms in which temperature, humidity and light conditions can be varied and controlled. The company's products are used in research laboratories and in highly specialized manufacturing operations. Sales in 1976 were $2.7 million.

Frio Oil Ltd., (41.0%), is an independent oil and gas exploration company based in Calgary. Founded in 1970 to explore for natural gas, some 80% of the company's landholdings are in north-eastern British Columbia. Production began in 1975 and the company is now generating sufficient cash flow to finance further exploration and development.

A. Freen Limited, (50.0%), of Vancouver, is a classic venture capital start-up situation involving a new product—a rear projection screen. In 1976 market potential was assessed and in 1977 efforts will be devoted to production and sales.

Mining Exploration: Ventures West is unique in the venture capital industry in its commitment to "grassroots" mineral exploration projects, in most of which it acts as syndicator. Over $600 thousand has been invested in eight junior companies or joint ventures to finance activities of innovative exploration geologists, while other partners have spent over $1.6 million on these projects.

The estimated market value of the

In the AES Data Ltd. plant in Montreal, electronic components used in word processing systems are positioned by computer.

Canadian Foremost Ltd. of Calgary, Alberta, manufactures large off-highway vehicles suitable for both Arctic muskeg and deserts.

Research growth chambers controlling temperature, light, and humidity are produced for world markets by Controlled Environments Ltd. of Winnipeg, Manitoba.

company's holdings increased significantly during 1976 and net earnings amounted to $0.1 million. CDC, with an investment of $2.2 million, owns 49% of the voting stock.

Innocan Investments Ltd.

Innocan Investments Ltd., in which CDC holds a 40% interest, made significant progress last year. Consolidated sales in 1976 increased to $36 million from $25 million in 1975. Consolidated earnings amounted to $61,000 compared to $27,000 in 1975.

Following its new policy of achieving majority positions in its underlying companies, Innocan early in 1977 sold its 19.8% interest in Vulcan Industrial Packaging Limited, doubling its original investment made 2 years earlier. Proceeds from this sale, as well as part of its initial capital, were used to increase Innocan's holdings in Cybermedix Ltd. from 22% to 51%, in International Systcoms Ltd. from 37% to 53%, and in Laurentian Concentrates Limited from 56% to 65%. This latter investment permitted Laurentian Concentrates to purchase the assets of Hand Chemicals, a manufacturer of pyrotechnics, and the assets of a new venture spawned by Innocan to develop new technology in paint resins.

Innocan's major holdings (with percentage ownership in brackets) are:

AES Data Ltd., (64%), a Montreal-based electronics company manufacturing word processing equipment, had sales of $10.1 million (compared to $4.3 million in 1975) with net earnings of $0.6 million. This company has its own distribution and service offices in Vancouver, Calgary, Winnipeg, Toronto, Ottawa, Montreal and Halifax and has distribution arrangements in the United States and in the principal countries in Europe.

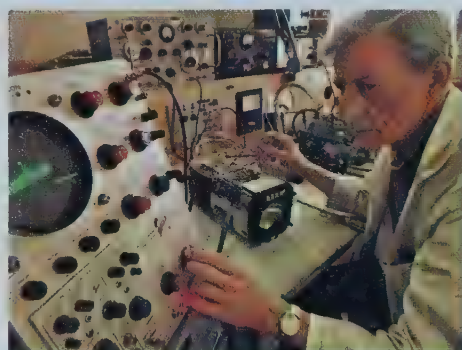
Coroplast Ltd., (90%), manufactures corrugated plastic materials at its plant in Granby. Durable and weather-resistant, its products are used as packaging and for the production of outdoor signs. This company is still in a start-up period and lost $0.3 million on sales of $0.7 million.

Cybermedix Limited, (51.0%), operates 45 automated diagnostic medical clinics offering testing and health screening programs in Ontario and Quebec. Sales attained $6.9 million. In early 1977, it expanded into the United States, acquiring a clinic in Metropolitan Buffalo.

Innotech Aviation Limited has large and diversified maintenance and servicing centers across Canada for aircraft and their navigation equipment.

Sentrol Systems Ltd. designs and manufactures electronic sensing and control equipment, primarily for the pulp and paper industry.

Engineers inspect technical plans for the production of Wordplex Corporation word processing equipment.



InnoPoP Beverages Ltd., (85.0%), owns the PoP Shoppe franchise for the Province of Quebec. Start-up expenses for 2 new bottling plants and adverse weather conditions generated a loss of $0.4 million on sales of $1.2 million.

Innotech Aviation Limited, (66.7%), owns the largest and most diversified aviation sales, aircraft maintenance and servicing facilities in Canada with servicing hangars in St. John's, Montreal, Toronto, Calgary and Vancouver. It also custom designs and finishes plane interiors in Montreal. Sales increased by $2.4 million to reach $14.9 million with earnings of $0.3 million.

International Systcoms Ltd., (53.0%), manufactures portable and automobile radio telephones and two-way mobile radios at its plant in Montreal. Sales in 1976 rose from $5.3 million to $6.6 million with net profit of about $0.1 million.

Laurentian Concentrates Limited, (65.5%), is a Quebec manufacturer of protein and aqueous film foams used to combat oil-based fires and, since the end of 1976, is also specializing in the manufacture of pyrotechnics, and is developing a new technology in paint resins. Sales and earnings remained roughly stationary at the level of $1.6 million and $0.1 million respectively.

Rapco Foam Inc., (100%), was purchased by Innocan at the end of 1976. This company manufactures and distributes, through dealers, a synthetic foam insulating material from its plant in Oakville.

Sentrol Systems Ltd., (80%), is a Toronto-based company engaged in the design and manufacture of electronic sensing and control equipment primarily for the pulp and paper industry. Low investment in the paper industry during the year resulted in the company's sales remaining level at $6.3 million and a loss of $0.2 million was incurred.

Pipelines

In 1976, regulatory authorities in both Canada and the United States continued reviews of competing proposals to transport natural gas from the Alaskan North Slope and Canada's Beaufort Basin to markets in the south. Canadian need for Mackenzie Delta reserves is not immediate but recent gas shortages have focussed attention on the urgency of deliverability of Alaskan reserves to the United States.

Two proposals are under review by the National Energy Board in Canada. One of these is the Foothills Pipe Lines Ltd. proposal to build a pipeline down the Mackenzie Valley to northwestern Alberta in conjunction with a trans-Alaskan line running from Prudhoe Bay to Fairbanks and then paralleling the Alaskan Highway into northeastern British Columbia. The other is that of the Arctic Gas consortium, of which CDC is an associate member. This group proposes to build a pipeline from Prudhoe Bay to the Mackenzie Delta to connect with a line down the Mackenzie Valley thus enabling both Alaskan and Delta gas to be transported to markets in the south. The National Energy Board is expected to recommend one of these two proposals to the Canadian Government in the summer of 1977 for its review and final decision.

The Federal Power Commission in the United States is reviewing the above proposals and one other, not involving Canadian gas, submitted by El Paso Natural Gas Co. Examination proceedings which precede a FPC recommendation are complete and the presiding judge has supported the Arctic Gas proposal on economic, engineering and environmental grounds. The Commission must make a firm recommendation to President Carter before May 1, 1977, and he must give his recommendation to Congress by the fall of 1977. Thus the United States preference will likely be known near the end of the year.

CDC has invested $3.8 million in the Arctic Gas consortium and has indicated a provisional interest in subscribing for $100 million in the project's equity securities subject to certain financial conditions and Canadian private sector control of the project. As an associate member, CDC did not increase its investment during 1976, but retained the right to non-voting representation at Committee meetings. When and if Arctic Gas receives regulatory approval to proceed, CDC will assess the investment merits of the project.

If approval were to be received in late 1977 or early 1978, construction of the $7.5-billion Canadian line would likely commence in the winter of 1978-79.

As energy demands increase, an efficient mode of transportation must be developed to bring Arctic gas reserves to North American markets.

Petrochemicals

Polysar Limited

Polysar Limited, with assets in excess of $530 million, represents CDC's major interest in the petrochemical field. It is an international corporation with manufacturing plants in Canada, the United States and Western Europe.

Financial Review

In 1976, consolidated net income rose to $7.5 million, equal to $1.37 per common share, compared with a loss of $0.73 per share, after preferred share dividend payments, on earnings of $1.6 million in 1975. The improvement in earnings was achieved in the first half of the year, when sales and profit performance reflected the favourable trend which began in the second half of 1975. The rate of recovery slowed as the year progressed.

In contrast to 1975 when the company's production facilities operated as low as 60% capacity, the higher demand of 1976 enabled operation at approximately 80%, resulting in reduced unit costs. Offsetting the benefit of higher production rates were additional expenditures for wages, salaries and other operating costs so that gross profit margins remained substantially unchanged except for latex and resins where they were eroded by soft prices.

Investment in the expansion of the company's production facilities, excluding Petrosar, rose to $76.0 million in 1976. Construction continued on the styrene plant at Sarnia with completion expected by mid-1977. At Sarnia, expansion of the polybutadiene unit and conversion of the steam and power plant from natural gas to oil were completed. Revamping of the monomer units to accept Petrosar feedstocks is well advanced. Latex facilities at Chattanooga were expanded and additional facilities purchased in the U.S. for the production of polystyrene resins. Polysar's total expenditure in the Petrosar complex reached $48.3 million by the end of 1976 and it is expected that the ultimate investment will reach $70 million.

Outside financing arranged during 1976, consisted of a $15.1 million 2nd preferred share issue purchased by CDC, US$80 million of debentures placed in the Eurodollar market, and US$60 million of floating rate term loans to be drawn down by the end of 1978. A commitment has been made by CDC to invest up to $40 million in Polysar during 1977, thereby completing the current financing program.

Operations

In spite of the negative impact caused by the prolonged strike in the U.S. tire industry and the effect of a strong Canadian dollar, demand for Polysar rubbers improved in 1976, and worldwide sales volume increased by 15% from the 1975 level. As the motor vehicle market recovered from the recessionary climate of 1975, sales of general purpose SBR rubber and butyl rubber, both dependent on the automotive industry, increased substantially. A similar recovery was experienced in the sale of oil resistant nitrile rubbers.

The anticipated recovery of the latex industry did not materialize in 1976, and sales remained at about 1974-75 levels. Low demand for latex from the floor covering market, overcapacity and severe price competition in Europe, as well as the fall in value of sterling, adversely affected performance.

Despite overcapacity and depressed prices in the resin industry, sales volume of the plastic group increased 20%. The introduction of new product lines in the formed products group, growth in the use of rigid containers, and expansion of polystyrene foam in fast food applications are expected to have a positive impact on future earnings.

Demand for styrene monomers was strong from all sectors during the first half of the year but there was some softening in the second half.

Comshare Limited, Polysar's subsidiary in the computer services market in Canada, exceeded the overall industry growth and now holds a significant share of the market. The company has been successful in establishing a nationwide data communications network in Canada. Early in 1976 a direct communications line was introduced between Europe and North America which enables European users to gain access to a centralized data base in North America. Full two-way interactive processing will be possible in 1977.

Business Practices

In November 1976, amid suggestions of bribery and irregularities, Polysar created an independent committee to investigate certain invoicing, rebate and payment practices of Polysar International S.A. (PISA). Following thorough investigations in both Switzerland and Canada, the committee confirmed in its report that no contingent liability exists and that there were no indications of any actual or attempted bribery on the part of any employees. However, certain objectionable rebate practices have existed in respect to a few cases involving a small proportion of PISA's total sales and the committee recommended they be terminated. Polysar moved immediately to implement all the recommendations. Instructions to discontinue all the unacceptable practices were given and a new policy of corporate standards of business conduct was formulated and put into force. At the time of writing, an enquiry by the Public Accounts Committee of the House of Commons is under way.

Financial Review	**1976**	1975
	(millions of dollars)	
Total Revenue	**457.5**	392.1
Net Income	**7.5**	1.6
Working Capital	**77.8**	91.2
Fixed Assets (Net)	**207.3**	150.4
Long Term Debt	**160.6**	97.1
Total Assets	**530.5**	415.5

Petrosar in Sarnia, Ontario, is nearing completion, now scheduled for October of this year.

Petrosar Limited

Substantial progress was made on the construction of the Petrosar complex during 1976, moving it closer to the day in 1977 when it will become fully operational. By December 1976, the plant was 72% complete, in spite of the delays caused by the lack of skilled craftsmen. The crude unit is now finished and production began on March 30, 1977, as previously scheduled, making fuel products available to customers. The remaining sections of the plant have been delayed for three months by the slower construction progress with the result that production of petrochemical products is now expected to begin in October.

This delay as well as the inflationary pressures have affected the total financing and it is now expected that the peak requirements will reach $650 million, an increase of $75 million over last year's figures. Of this amount, $450 million is estimated as total fixed capital cost. The additional capital required will be financed by an increase in loans from the Canadian bank consortium which has been providing the bulk of Petrosar's financing. Three of Petrosar's shareholders, Polysar Limited, Du Pont of Canada Limited and Union Carbide Canada Limited, will be matching the additional loans by investing in further subordinated debentures throughout 1977, while CDC will continue to guarantee certain of Polysar's obligations under the various bank loan agreements.

Recruiting continued at a high level during 1976 with the addition of 253 new employees, which brought the permanent staff up to 339 of a total requirement of 500. Internal development of organizational activities proceeded in parallel with the plant construction progress, and training programs and information systems development are well advanced.

Mining

Texasgulf Inc.

Texasgulf is a diversified natural resources company with total assets of $1.37 billion.* CDC is the company's largest shareholder, having acquired some 30% of its common shares in 1973. Texasgulf is one of the world's largest producers of sulphur, and a substantial producer of zinc, silver, cadmium, soda ash, and fertilizer products. It also produces copper, lead, oil and gas, and forest products and has an interest in an iron ore producing company in Western Australia.

In 1976, production started at two mineral deposits discovered by Texasgulf's exploration program. One of these, the Nanisivik zinc-lead-silver mine on Baffin Island, discovered in 1957, is the most northerly mining operation in North America. Texasgulf retains a 35% net profits interest after recovery of exploration and development expenditures and production financing. In Wyoming, where Texasgulf discovered a trona ore body in 1963, a mine and mill designed to produce one million tons of soda ash per year began operation. Soda ash is an important ingredient in the glass, chemical and metallurgical industries.

Markets for major products—metals, agricultural chemicals and industrial chemicals—proved weaker than was anticipated a year ago. Though overall sales increased, prices of many commodities declined while production costs rose. As a result, net income declined to $62.9 million in 1976 from $103.2 million in 1975.

Sales increased 8% to $480.5 million from $444.6 million in 1975. The adjoining table shows 1976 sales by product and division and indicates the important economic role Texasgulf fulfills as a supplier of key natural resource products.

In expectation of strengthening markets, the company is continuing its major capital investment program. In 1976, capital expenditures totalled $206 million, compared with the record $239 million spent in 1975. In 1977, Texasgulf's capital expenditures are expected to be some $200 million. Of this, $135 million will be spent at Kidd Creek on construction of the copper smelter and refinery, and to continue work on the second underground mine and the expansion of the concentrator, which should permit an increase in production to 5 million tons of ore per year from the current 3.6 million tons per year. The copper smelter and refinery should be completed and readied for operation in late 1979.

In order to support its capital investment program, particularly the Kidd Creek expansion, Texasgulf raised new equity capital in 1976—the first new equity since the company's formation in 1909. A total of $147 million was raised through the sale of convertible cumulative preferred shares in the United States and Canada. Two-thirds of the shares were sold to the public through underwriters and the balance purchased directly by CDC. The shares were well received in financial markets. This additional investment in Texasgulf increases CDC's percentage interest in the company slightly, but, more importantly, strengthens the financial base from which Texasgulf can undertake additional capital investment.

Exploration results at Izok Lake, 225 miles north of Yellowknife, Northwest Territories, continue to be encouraging. Results of drilling to date indicate 12.15 million tons of mineralization, averag-

1976 Sales By Product and Division		Totals
	(millions of dollars)	
Agricultural Chemicals		**148.7**
Phosphate Rock	3.8	
Phosphoric Acid	57.0	
Dry Fertilizer	48.2	
Feed Phosphates	8.0	
Limestone Products	1.0	
Potash	29.3	
Other	1.4	
Industrial Chemicals		**117.8**
Sulphur	117.5	
Soda Ash	0.3	
Metals		**230.5**
Copper Metal	79.2	
Lead Concentrates	7.8	
Zinc Concentrates	42.4	
Zinc Metal	73.5	
Cadmium	4.7	
Silver	21.9	
Tin Concentrates	1.0	
Oil & Gas		**13.8**
Oil and Condensates	2.0	
Gas	11.8	
Other includes inter-divisional sales elimination)		**(30.3)**
Total Sales		**480.5**

Financial Review	1976	1975
	(millions of dollars)	
Total Revenue	**490.6**	461.7
Net Income	**62.9**	103.2
Net Income Per Common Share (Dollars)	**2.05**	3.37
Dividends Per Common Share (Dollars)	**1.20**	1.20
Working Capital	**244.2**	178.3
Fixed Assets (Net)	**846.7**	725.6
Long-Term Debt	**266.2**	227.9
Total Assets	**1,372.6**	1,155.7

**Note: All Texasgulf amounts are in U.S. Dollars.*

ing 2.8% copper, 13.77% zinc, 1.4% lead, and 2.05 ounces of silver per ton. Further work will be undertaken in this area during 1977.

Active mineral exploration programs are being conducted in north central British Columbia, in Ontario, including the Timmins area, and in Newfoundland, Nova Scotia, and Quebec. In the United States, Texasgulf is exploring uranium properties in southern Wyoming and a gold prospect in Colorado, in addition to a number of exploration projects in other states. Mineral exploration is also being carried out in Mexico, Australia, Spain, Africa and Ireland.

A feasibility study on the economic viability of the Cerro Colorado copper prospect in Panama will be completed in 1978. Indicated mineralization is at least 1 billion tons of more than 0.6% copper. If the study indicates that the deposit is economic, Texasgulf, under an agreement with the Panamanian government, would oversee the development through the construction period and the first 15 years of operation. Texasgulf holds a 20% equity interest in the project, with the remaining 80% owned by the government of Panama.

Other major international assets include Texasgulf's iron ore interests in Western Australia. Discussion with potential customers may lead to further development of iron ore properties in this area.

In 1976, Texasgulf's oil and gas division participated in 33 wildcat wells and 25 development wells. Seven of 21 completed wildcats were indicated discoveries and 19 of 24 completed development wells were successful. Principal areas selected for exploration were the Gulf of Mexico, the Gulf of Alaska and the Gregg Mountain Park area of the Alberta foothills. An experimental program to produce heavy oil in the North Battleford area of Saskatchewan using steam injection is continuing, although improvement in technology will be required to achieve economic production.

Cadmium, used in rustproofing and as an additive in paints, is filtered out during the final leaching stage in the zinc plant at Timmins, Ontario. The molten metal is cast in pencils and balls as shown here. Texasgulf produced approximately one million pounds of cadmium metal last year.

Selected Share Data

CLASS A PREFERRED SHARES

Outstanding
10,000,000 shares of a par value of $10 each.

Distribution
Held by 21 institutional and industrial enterprises.

Dividend Dates
A dividend at the rate of 5¾% per annum is payable quarterly on the first of January, April, July and October.

Transfer Agent and Registrar
The Corporation at its Vancouver and Toronto offices.

CLASS B PREFERRED SHARES

Outstanding
1,447,813 shares of a par value of $100 each.

Distribution

Location	Shareholders Number	Shareholders %	Shares Number	Shares %
British Columbia	2,383	13.9	103,201	7.2
Alberta	1,474	8.6	67,253	4.6
Saskatchewan	627	3.7	24,392	1.7
Manitoba	620	3.6	69,526	4.8
Ontario	9,271	54.4	919,630	63.5
Quebec	1,566	9.1	212,692	14.7
New Brunswick	474	2.8	22,566	1.6
Nova Scotia	486	2.8	21,358	1.5
Prince Edward Island	87	0.5	2,936	0.2
Newfoundland	64	0.4	2,510	0.2
Territories	20	0.1	418	—
Outside Canada	55	0.1	1,331	—
Total:	**17,127**	**100%**	**1,447,813**	**100%**

It is estimated that shares held in the name of trust companies, brokers or other nominees represent holdings by an additional 3,500 beneficial shareholders.

Size of Holding

Number of Shares Owned	Number of Shareholders	%
1- 49	12,810	74.8
50- 99	2,185	12.8
100-199	1,349	7.9
200-299	404	2.4
300-399	77	0.4
400-499	39	0.2
Over 500	263	1.5
Total:	**17,127**	**100%**

CLASS B PREFERRED SHARES (cont'd.)

Dividend Dates
A dividend of $2.00 per share is payable quarterly on the first of January, April, July, and October.

Dividend Reinvestment Plan
To facilitate the acquisition of additional Class B preferred shares at a low cost, the Corporation has instituted for its shareholders a dividend reinvestment plan which is administered by the transfer agent, National Trust Company, Limited. By the end of 1976, 2,860 shareholders were participating in the plan, representing 16.7% of all shareholders. Participants may add voluntary cash contributions to their dividends to increase their purchase.

Bonus Common Shares and Conversion
Each Class B preferred share may be converted at any time at the option of the holder into ten common shares. On conversion, the holder receives immediate delivery of the bonus common shares.

Listings (Ticker symbol: CDC Pr B)
Vancouver Stock Exchange
Alberta Stock Exchange
The Winnipeg Stock Exchange
The Toronto Stock Exchange
Montreal Stock Exchange

Trading
During the year, 282,331 Class B preferred shares were traded on the stock exchanges. Price fluctuated as follows on The Toronto Stock Exchange:

	High	Low	Close
1st quarter	101	95¼	98⅛
2nd quarter	99½	97	97⅜
3rd quarter	100	97	99
4th quarter	100¼	98	100

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

COMMON SHARES

Outstanding
30,712,038 shares without par value.

Distribution
Held by 30 registered shareholders.

Dividends
The Corporation has not paid dividends on its common shares since their issuance.

Transfer Agent and Registrar
National Trust Company, Limited at its principal offices in Vancouver, Calgary, Winnipeg, Toronto and Montreal, and by its duly appointed agent, The Royal Trust Company, at its principal offices in Regina, Saint John, Charlottetown, Halifax and St. John's.

Committees of the Board

Communications Committee

The Communications Committee reviews and guides the public relations activities and shareholder relations functions of the Corporation. The picture shows from left to right the Chairman of the Board, Mr. John Ellis, who acts as Chairman of the committee, with the two other members, Messrs. Beaubien and Waters.

Audit Committee

The Audit Committee is a watchdog on behalf of the shareholders, monitoring financial accounting policies and control procedures to ensure that they are sound; it also reviews the quarterly financial statements and, with the auditors, examines and recommends to the Board the approval of the year-end financial statements. Messrs. Waters, Turvey, Moreau (Chairman), Beaudoin and McGregor are the five members of the Audit Committee.

Executive Committee

The main function of the Executive Committee is to examine in detail investment proposals, financing alternatives and operating plans before their presentation to the Board; it also deals with routine matters between meetings of the Directors. The committee has seven members: Messrs. Kendall, Gallagher, Hampson, Ellis (Chairman), Desmarais and Sellers; Mr. Shoyama, who does not appear in the picture, is an ex-officio member.

Board of Directors

Philippe de Gaspé Beaubien††
Chairman of the Board and
Chief Executive Officer
Télémédia Communications Ltée
Montreal, Quebec

Laurent Beaudoin†
President
Bombardier-MLW Ltd.
Valcourt, Quebec

Rodolphe B. Casgrain
President
Casgrain & Company Limited
Montreal, Quebec

Pierre Côté
President
Laiterie Laval Limitée
Quebec, Quebec

Louis R. Desmarais*
Chairman
Canada Steamship Lines (1975) Limited
Montreal, Quebec

A. John Ellis* ††
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Pour obtenir l'édition française du présent rapport, on est prié d'écrire au Secrétaire, Corporation de développement du Canada, Suite 1860, 200 rue Granville, Vancouver, Colombie-Britannique, V6C 1S4

Cover shot:

The cover shot shows the CDC's initials in a pool of heavy crude oil from wells located in Hussar, Alberta; the oil was placed in a glass tank to allow the light to come through from below. The maximum intensity of light required to produce the rich red-brown colour was 18,000 light-watt-seconds, enough light to get stop-action photography in a hockey arena. The F-stop was 90 and the shutter speed 125th of a second. Stanley Wong of Vancouver was the photographer.

Concept: Ken Grant
Design: John Terin
Photography: Chris Bickford
Ken Grant
Bob Warren

Printed in Canada